

**Governor's K-12 Public School Funding
Advisory Council**

**Room 137, State Capitol
Thursday, November 1, 2001**

COUNCIL MEMBERS PRESENT:

Jeff Hindoien, Policy Advisor, Office of the Governor
Madalyn Quinlan, Chief of Staff, Office of Public Instruction
Kirk Miller, Chairman, Board of Public Education
Rachel Vielleux, Missoula County Superintendent of Schools
John McNeil, Superintendent, Savage Public Schools
Sandra Murie, Superintendent, Rocky Boy Public Schools
Geoff Feiss, Trustee, Helena School Board
Dennis Burr, Clancy
Linda Tutvedt, Trustee, Kalispell

STAFF:

Amy Carlson, Budget Analyst, Office of the Governor
Linda Ashworth, Secretary

VISITORS:

Lance Melton, MSBA
Dave Puyear, MREA
Bob Vogel, MSBA
Loran Frazier, School Administrators of Montana
Tom Bilodeau, MEA/MFT
Lynda Brannon, MASBO/Indian Impact Schools of Montana
Ivan Small, Poplar Public Schools
Sandra Olsen, AGATE
Jim Standaert, Legislative Services Division
Mary Whittinghill, Montana Taxpayers Association
Conrad Stroebe, Big Sky High School Trustee
Eddye McClure, Legislative Services Division
Connie Erickson, Legislative Services Division
Ericka Smith, Lee News

CALL TO ORDER:

Chairperson, Jeff Hindoien called the meeting to order at 9:12 in room 137, Capitol.

APPROVAL OF MINUTES:

It was moved and seconded to approve the minutes of the October 4, 2001 meeting.

COMMITTEE BUSINESS:

Jeff called attention to the copies of the emails from Garry Rafter and Conrad Stroebe that were attached to the agenda.

Jeff referred to the document e-mailed to council members from Curt Nichols, Budget Office, which was intended to be a broad overview containing regional comparative numbers for school funding purposes. Jeff informed the council that Curt would answer questions in reference to the form.

Curt explained that the list originated from the census bureau and could be expanded to include every district in the United States. Curt offered the website for council members wanting to access that information.

Lance Melton, Montana School Board Association, passed out information that clarified the information relating to the percent of increase in school district general fund budgets coupled with the CPI during those years.

REVIEW OF CURRENT COUNCIL CONSENSUS:

Jeff presented a consensus summary, which outlined the issues that had been discussed by the council at previous meetings. The consensus summary attempted to link the issues to specific provisions in HB 625.

Jeff reminded the council that the organizational framework included 12 subsections, as outlined in HB 625, and those would be placed into three broad conceptual areas:

- Units of funding
- Tax equity
- Governance

He reminded the council that although there would be “overlap” in several cases, the council had agreed to follow and utilize the conceptual framework as much as possible.

He outlined what was done in respect to each of the issues in the bill. The summary was intended as a vehicle to organize the council’s thoughts on where it has been, what it has looked at and where it wanted to go.

He quickly ran through the draft and recommended that the draft be used during the wrap up session at the end of the day.

Transportation:

Jeff suggested the council should get a sense on where it stood on the issue of transportation funding. He pointed out he had asked Jim Standaert for more ideas on how to simplify this. Jeff stated that Joan Anderson had indicated she would bring in a survey of districts regarding transportation. Madalyn said she would bring the survey to the afternoon session.

School Facilities:

Jeff recollected that school facilities weren't a priority since there would not be a great deal of time and resources to look at the issue. John McNeil reminded the council that since this would tie in with the HB 124 block grants, he did not see this as an issue that needed further perusal. John also explained that the funding matter would catch the issues of declining enrollment, per FTE payment, and regression analysis.

Madalyn reminded the council that a change to the GTB level could affect bonding capacity of school districts. She contended the council would need to note this concern.

Funding Issues:

Jeff questioned whether a three-year average dealing with declining enrollment would work with an increase as well as with a decrease in enrollment.

Amy Carlson presented information on three-year averaging with 6%. She calculated the cost of a 3-year average ANB and then stopped the loss for districts with increasing enrollment at 6%. The cost of the option would be \$9.6 million, in comparison to \$7.9 million for the full averaging proposal and \$14 million for the higher of the current or average ANB proposal. She noted that this proposal would benefit small schools more than large schools, because the enrollment changes in small schools often vary by a greater percentage and also the 6% would be reached at a faster pace with increasing enrollments. In conclusion it would cost roughly \$9 million for averaging, both ways, and \$14 million for declining enrollment only.

Madalyn Quinlan reiterated that the larger impact would be on the three-year averaging. She felt the effect of the 6% piece would be very small. She reported that it was anticipated that approximately \$350,000 per year would be built into the cost estimate in terms of increased state aid for those districts with an enrollment growth greater than 6%. She speculated a three-year average would bring that number down.

Lance Melton, MSBA, responded that he had surveyed his fellow executive directors in other states and of thirty responses received, he didn't recall any

school districts that averaged both ways. Mr. Melton stated that he would bring the information to the committee.

Soft Caps:

Jeff explained that soft caps were the mechanism in SB 390, which would allow districts to condition declining enrollment through the use of local levies. As the enrollment declines, the district would not have to reduce its current budget but could get additional monies through local mills. It would allow a district five years to get down to the max. Soft caps would address the issue of declining enrollment through the use of local monies. Averaging would address the issue of declining enrollment through the use of both local and state monies.

Jeff cautioned that the issue of averaging should not be made in a vacuum. He asked the council to look at how the two issues, averaging and soft caps could interplay, since averaging would affect state funds coming to a district and soft caps would have no link to state funds.

Other Issues:

Jeff asked for information from MEA/MFT on its legislative proposals for retirement issues that would deal with teacher retention issues. Tom Bilodeau reported that MEA/MFT was looking at retirement issues and recommendations from last year's task force regarding teacher salary issues. Jeff queried the council on whether ideas from last session should be incorporated in the council's recommendations.

Jeff said he would obtain copies of the Task Force Booklet for any council member that didn't have it. He suggested that the members read it and discuss it at the next meeting. It was suggested that the council discuss the process behind the reoccurring themes and how they should be addressed in the next legislative session. The comments concerning discussion of those issues should be included in the recommendations to the Interim Committee in December.

Tax Equity:

Jeff reported that the council had been focusing on whether, "appropriate disparity exists in the current local tax effort necessary to fund school districts" and whether the HB 124 block grants should be retained or repealed. Most information discussed to this point ties directly to previous reports from the Department of Revenue.

Governance:

The council has focused its priorities on issues in the “Units of Funding” and “Tax Equity” areas and has chosen to spend its time and resources in those two areas.

It was determined by the council to look at the adopted accreditation standards on non-traditional and part time students, distance learning and the calculation of ANB for both areas. A copy of the state accreditation standard for distance learning (10.55.907) was presented to the council. Madalyn Quinlan reported that she was unaware of accreditation standards or board issues with respect to part-time or non-traditional students. She maintained those issues came out of the Office of Public Instruction rules on the definition of part-time and full time students and how those students are funded. She stated that there was not a definition of a non-traditional student in statute or rule.

Madalyn reported that OPI would have information on the number of staff who are identified as facilitators for distance learning, but not the number of students involved in the process.

Jeff reminded the council that the issue of distance learning was added to the “charge” of the council because of SB 231. Jeff distributed copies of the bill to the committee and commented that Senator Duane Grimes had requested its inclusion to the bill. Madalyn suggested that a presentation to the council would clarify what was to be achieved by the addition and what it would be requesting from the council in terms of distance learning.

Increasing Staff Levels:

Madalyn referred to information from the October 4th meeting that pointed out an increase in staff levels from 96-97 to 98-99. A drop in staff was recorded from 98-99 to the present. It was suggested that special education and special needs areas resulted in an increased demand in those specific areas.

John McNeil reminded the council members that during that timeframe the federal government infused reduced class size monies into the state. Jeff maintained the council needed to agree on a data set and note the reasons for the increase in the final report.

School District Structure:

The council viewed subsection (d) and (l) as inquiries related to the broader issue of school consolidation. Jeff said he would meet with Rachel Vielleux prior to the next meeting to merge the issue into a final product for council.

Madalyn reminded the council to remove the barriers to voluntary consolidation when high school districts choose to consolidate without consolidating the elementary districts.

Rachel had distributed information on a bill that was introduced in 1993 that set up mechanisms for communities to hold a vote to consolidate their schools. She thought the community could offer tools to make consolidation happen, thus eliminating the council's need to push communities in that direction.

Jeff reiterated the need to deal with the moratorium issue that would allow districts to consolidate the delivery of education services. Distance learning is an existing opportunity to deliver educational services. At the current time Montana is not taking advantage of the opportunities offered by distance learning. The council felt this area was becoming a huge issue and should be addressed during the next legislative session.

SPECIAL EDUCATION WEIGHTS:

Sandra Murie stated her wishes that special education weights be looked at again. She reminded the committee that special education funding was distributed to the schools based on ANB. Those schools with little need receive the same funds as those schools with greater need. She felt the funding system should be weighted on need. She also reminded the committee that there had been a Special Education Task Force during the last interim. It was suggested that Bob Runkel, from the Office of Public Instruction, be invited to the next meeting to discuss the issue. Jeff stated that the special education funding would fit into the catchall of the bill relating to the equity of the funding mechanism in Montana.

Geoff Feiss wondered if the Title I schools would receive more special education money. It was explained that title I funding is federal money that flows through the state based on poverty indicators of the school population and has nothing to do with special education. It is targeted for resource rooms, not special needs services.

John McNeil explained that he had served on the Interim Special Education Funding Committee. He felt that the problem within the interim committee involved stabilizing the amount going to the redistribution formula. It didn't address the issues of high impact students. He referred to a letter from a Jordan area school would receive a student that would cost over \$40 thousand and the entire district budget was \$30 thousand. Mr. Augenblick had alluded to the fact that many states take on the responsibility for well-defined, high impact students. John reminded the council that prior to the remake of per ANB distribution, there had been a pool of money that districts could apply for to handle their high impact students. He felt the current model slows down the identification of some special education students because there had been some schools that had identified all

their students as being special education students, which was the major disadvantage of the weighted formula in funding special education.

GOOD OF THE ORDER

Rachel presented the G. V. Erickson Award to John McNeill. The G.V. Erickson Award is presented annually by the School Administrators of Montana. It is given to a member of the School Administrators of Montana who has made the greatest contribution to the betterment of education in Montana. This is the most honored award a school administrator in Montana can receive. The council members commented that this was the highlight of the day and for one time John was speechless.

GOVERNANCE

Report From The Working Group On School Fund Structure:

Steve Johnson, Assistant Superintendent for Business and Operations for the Bozeman Public Schools, gave a summary of the working group's recommendations to improve the current structure of school funds. He stated that the group's main concern was to add, not take away flexibility for school districts. The committee recommended consolidating current funds in the following manner:

- Consolidate the General, Transportation, Retirement, Compensated Absence Liability, and the Litigation Reserve into the General Operating Fund.
- Consolidate Bus Depreciation Reserve, Building Reserve, Technology Acquisition and Depreciation, Building, and Lease or Rental Agreement under the title of Capital Projects Fund.
- Consolidate the Metal Mines Tax Reserve, Mining Impact and Traffic Education under State and Private Programs Fund.
- Miscellaneous programs would be split, for investment purposes, to State and Private Programs Fund and Federal Programs Fund.
- Adult Education would have a name change to Community Education Fund.

No change was recommended for the following: Tuition, Non-Operating, Debt Service, Flexibility, School Food Service, Inter-Local Cooperative, Internal Service, Impact Aid, Enterprise, Agency, Trust And Endowment.

Mr. Johnson addressed the issue of cash shortages in the transportation fund. He recommended that if the transportation fund were to remain a separate fund, allowing the state to advance a portion of the districts' transportation aid early in the year could alleviate the problem of cash flow. He urged the council's support of the concepts in HB 163, which would greatly simplify transportation and accounting.

Mr. Johnson suggested amending the law dealing with the deadline for submitting budgets to the county. The law should be amended to require the trustees to submit the budget to the county superintendent “by August 20” instead of “within 5 days” of adoption.

After a lengthy discussion, the council commended Steve Johnson and his working committee for the time, effort and results of their labors.

Mr. Johnson reiterated that no one suggested eliminating the caps, but when the working group looked at the overall equalization requirements it was difficult to develop other mechanisms that would allow the state to comply with the equalization efforts. In molding the other funds into the general fund, districts would be able to meet their transportation and retirement needs by a permissive levy.

The working group recommended a total overhaul of the transportation laws and the transportation system, maintaining that it was not an efficient system. The three-mile limit doesn’t apply to today’s society and must take into account density of population and number of miles.

John McNeil voiced his concern that many districts are currently capped at 80% and they must be given a mechanism to increase their permissive levies. The council agreed that it would need to address the question of giving districts permissive capabilities to deal with various issues.

Jeff announced that he would work with Amy Carlson, Joan Anderson, and Madalyn Quinlan to consolidate the information from Steve Johnson’s School Fund Structure Report into the summary consensus draft.

Bob Vogel presented a chart demonstrating the allowed transfer of funds under SB 436. He explained that SB 436, which was introduced last session, contained flexibility components for transferring funds. Jeff asked the council to look at it and noted that it would be blended it into the summary for their consideration.

Curt Nichols distributed a memo containing the websites and data source locations for figures in his report.

PUBLIC INPUT

Bob Vogel and Lance Melton, MSBA, reported on SB 231. The bill originated in the Ed Forum group and was sponsored by Senator Duane Grimes. It provided ANB to districts for students that were not physically in the school building. The bill addressed the concerns of developing technology for distance learning for home school students that couldn’t learn well in the traditional school setting.

The provisions of the bill provided that the students had to be within the school district boundaries with certified employees providing the educational services.

Lance added that the Board of Public Education already had an administrative rule on this issue. The standard states that either the person providing the distance learning has to be properly certified and endorsed or under the supervision of a certified facilitator in the school district. The standard limits the boundaries of the district, with the Office of Public Instruction developing rules on the computation of those boundaries. The Office of Public Instruction has rules concerning physical attendance of every child in order to be counted for ANB, with the exception of homebound children. SB 231 died on the last day of the session due to a \$250,000 fiscal note.

Mr. Melton alleged that in terms of legislation the statutes are not keeping with the reality. Currently, statutes contemplate physical presence in a particular building, sitting at a desk, and receiving instruction. Lance maintained that in that regard, Montana laws are more antiquated than other state's. Lance reported that 15,000 school age children, in the State of Montana, are not enrolled in the public schools. He encouraged the council to look at more flexibility to meet the needs of the 3,000 home-schooled students, statewide, that are involved in education via technology

Kirk Miller reminded the council that the Board of Public Education continues to look at the issue. He maintained that the funding council had enough to deal with and the policy issue of distance learning should be left with the Board of Education.

Jeff responded that SB 231 represented the wishes of the education community during the last session and could be recommended by the council as legislation for next session.

Statewide Salaries:

Lance Melton stated that MSBA would be in opposition to the issue of a statewide teachers salary, stating that school districts would still be obligated to bargain on conditions of employment at a local level. Mr. Melton punctuated his testimony with written information regarding the constitutional issues of a statewide teacher salary.

Tom Bilodeau, MEA/MFT, agreed with Mr. Melton, reinforcing the requirement for the State of Montana to fully fund the increase in the statewide salary minimum. He maintained there wouldn't be a local issue if the funding came from the state. Mr. Bilodeau explained that the added \$60-100 million price tag per year would compensate for the monies lost to inflation since 1990. A statewide teacher salary would equalize opportunity for small school districts to be competitive with larger districts when recruiting teachers.

Mr. Bilodeau distributed copies of a legal opinion from Attorney Rick Larson. Mr. Larson stated, "While a statewide teacher salary schedule would restrict to one degree or another the flexibility of districts and teachers' representatives engaged in collective bargaining, the legislature could address that through amendments to the Collective Bargaining Act. Statewide standard for such things as grievance arbitration for teachers have been accommodated, and a salary schedule should fall in the same category".

Tom presented written documentation from MEA/MFT that listed the following:

- Eleven funding priorities
- A statewide general fund budget summary since FY 91
- The inflation adjusted statewide general fund budget summary since FY 91
- A statewide and group school general fund district budget per ANB and percentage summary
- Information on the distribution of cost per student over different size groups of districts
- Information related to the issue of \$5000 per FTE to all school districts; and
- Information related to health care premiums and school district benefit costs over the last decade.

Mr. Bilodeau informed the council that MEA/MFT was beginning to address a statewide health pool. He reiterated that \$5000 per FTE increase in basic entitlement under the BASE to all school districts would address the issues of pay, competency, performance and future quality of the teaching profession. He acknowledged that \$5000 FTE would have an up front cost to the state of \$31 million.

Conrad Stroebe, High School Trustee at Big Sky High School, Billings, offered oral and written testimony concerning the three funding sources that are being or have been used to fund public education. Each one would generate about \$90 million to \$100 million annually. Those three funding sources are:

1. 55 statewide property tax mills
2. ½% education fund payroll tax
3. Tourist and entertainment tax.

He maintained that Montana's success in educating its students is due to small schools. He asked that the council look at giving the same dollars to urban schools as rural schools.

He upheld that small schools give each of Montana's students the educational opportunity they deserve. He argued that local school property taxes have skyrocketed since 1991, thus allowing Montana to renege on its 1993 promise to

fund basic education for all Montana's school children, regardless of where they reside.

TAXPAYER EQUITY

HB 124 Tax Equity:

Amy Carlson reported on removing HB124 block grants from district funds, other than general fund, and the redistribution options for these state funds. The options presented in her testimony demonstrated the decrease in state expenditures from the removal of the block grants and the increase in state expenditures by the proposed redistribution through changes in the school funding mechanisms. The net impact to the state general fund would be zero.

She concluded that all options for redistributing HB 124 block grant revenue back to districts would create districts that receive more state general fund and districts that would receive less. Transfers could also occur between funds of districts. There would be winners and losers with some taxpayers paying more and some paying less than under current block grant payments. As a whole, distributing this revenue through a school funding mechanism, instead of the block grants, would be a more stable and equitable method of school funding for the long term.

County Equalization Of District General Fund:

Jim Standaert and Amy Carlson reported on the tax equity effects of equalizing district general fund BASE budgets at the county level. Mr. Standaert assumed that the over-BASE area would continue to be funded by the district in the same manner it is today. He concluded that the countywide equalization would cause a significant improvement in tax equity among taxpayers in the BASE funding of schools. As taxes become more equal, taxpayers currently paying higher BASE mills would pay less and taxpayers paying lower BASE mills would pay more. Again there would be winners and losers in comparison to the current system.

The following options were raised:

1. Does the council want to equalize BASE budget at the county level and
2. Should part or all of the \$30.9 million remaining reduction in cost be used to:
 - Increase the GTB percentage
 - Address declining enrollments, and /or
 - Make other improvements in the funding formula

The state would spend the same amount of money under the county equalization law as it does under current law. Under current law the state spends 43.6 million in HB 124 reimbursements plus \$98 million in GTB for a total cost of \$142 million

dollars. The county model would spend \$142 million through the GTB, allowing the state to retain the \$43.6 million from HB 124. All the general fund components of HB 124 would go to the GTB. In this scenario the GTB percent would be raised from 175% to 225%, allowing school districts to relieve property taxes by giving them appropriated fund balances and non-levied revenues to reduce local taxes. This would amount to an average 10-mill reduction across the state.

Transportation:

Jim Standaert relayed information on exploring ways of simplifying the method by which the state and county share of K-12 transportation is distributed across districts in the state. He also reported on legislation affecting K-12 transportation that was offered during the 2001 legislative session. He reported that HB 163, as proposed during the last session, would have based state and county mileage rates on bus capacity only, regardless of the number of riders, and would require set rates for transportation. There would not be losers but would be rewarding buses less than half full. State and county transportation costs would increase by \$3.6 million per year. HB 163 would have cost the state \$1.7 million per year.

He reminded the council that the current system requires a district to count riders, type of rider, mileage, bus capacity, and type of route (regular or special ed).

Jim offered the council the following simplification ideas:

- Make the state and county share of transportation spending a percentage of approved costs.
- Set the state rate at a fixed amount per mile.
- Base state and county mileage rates on bus capacity only, regardless of the number of riders, as offer in HB 163 during the 2001 session.
- Set the amount of the state and county share of transportation costs at a fixed amount per ANB; and
- Retain the current system, abolish county share, increase state share by amount of county share. This would require approximately 6.3 statewide mills to make it revenue neutral to the state general fund.

The committee discussed the issue of “half-full” buses. Most districts do pick up students within the three-mile limit and do not charge those students. Most of those buses are full when they arrive at the school. The council maintained that communities in Montana felt it was important to transport students, regardless of the mileage limitation.

Madalyn Quinlan reported that OPI received reports on all bus routes, with both eligible and ineligible riders being reported. She added that transportation costs were last increased in 1991.

Amy reported that the Fund Structure Working Group had discussed similar issues in their meeting on Tuesday. They had suggested redefining the distribution of transportation funding.

John McNeil suggested that the council adopt Jim's first proposal of existing budgets, existing expenditures and a percentage of increase. It would have to be incorporated into a model that would be somewhat permissive so that it could increase it in the future.

SETTING THE PRIORITIES OF THE COUNCIL

After lengthy discussion, the council agreed that Amy Carlson, Jeff Hindoien and Madalyn Quinlan would report back on the feasibility and cost of the following proposals:

1. Countywide BASE Equalization
2. Combining retirement and transportation into the General Fund as one operating fund.
3. Moving the district non levy funded revenue in the fund balance and re-appropriate it to above BASE
4. Using HB 124 block grant funds to provide equalization
5. Averaging ANB over a 3-year period for declining enrollment, leaving the increasing enrollment alone.

Dennis Burr asked Amy to report on how the property taxes would change under the following three scenarios:

1. Continue to equalize at the district level and use HB 124 for equalization, in other words increasing the GTB percentage
2. Equalize at the county and leave HB 124 at the county; and
3. Equalize at the county and use HB 124 for increasing equalization, thus increasing the GTB percentage.

There being no further business Chairman Hindoien adjourned the meeting at 5:15. The next meeting will be held November 30, 2001.

Jeff Hindoien
Chairman

Linda Ashworth
Secretary

